

## MEMORANDUM

---

**DATE:** Monday, September 29, 2014

**TO:** Richard Ellis, State Treasurer  
David Damschen, Deputy State Treasurer

**FROM:** Brian Baker  
Zions Bank Public Finance

**RE:** Early Light Academy

---

Early Light Academy is a K-9 charter school located in Daybreak in South Jordan. Total enrollment this past school year was 752 students. The school is looking to borrow approximately \$5,935,000 in order to add a second building to their campus to enable expanded enrollment in all grades. This addition would add approximately 37,000 square feet of space to the existing 59,694 foot building, located on the same 6.38 acres of land. The bond issue will also fund a debt service reserve fund and pay costs of issuance.

I have reviewed the application from Early Light Academy, as well as additional information that I requested and that the charter school has provided to me. All questions have been answered to my satisfaction. My analysis results in the following findings:

1. (Exhibit D Schedule 1) The mission of the Early Light Academy is to “deliver a high-quality education with a deep, rich and engaging curriculum utilizing effective instructional techniques and emphasizing history, taking our students from the Stone Age to the Space Age, the Information Age and beyond.” They hold that “Understanding history sheds light on our future...Our actions today will impact our tomorrow.” ELA strives to improve student learning by creating a learning environment which encourages inquiry, supports comprehension, and develops mastery. History is their chosen curricular emphasis, which fosters a culture of inquiry-based study.
2. (Application Part II Question 6) The bonds are to be secured by an assignment and secured interest in the revenue pledge agreement and trust accounts, and a security interest and pledge of the deed of trust in the land, building, and personal property that are being purchased or constructed with proceeds. The bonds will also be secured by a debt service reserve fund.
3. (Exhibit C (g)) ELA has a management agreement with Academica West. Academica is paid \$272,500 each year for services covering up to 700 students, and \$350 per additional student. Thus for the 2014-2015 school year, the agreement is valued at approximately \$290,700. The contract will likely need to be amended or updated to account for the ELA’s expected enrollment increase for the 2015-2016 school

year. These costs seem high based on similar contracts seen for other charter schools and other service providers.

4. (Exhibit D Schedule 1) The school has provided a breakdown of waiting list by grade level for 2014-2015 school year. The waiting list is strong, with 1,155 names currently on the list (versus total enrollment of 752). Grade level waiting lists are strong for K-6 (more than 100% of the number of students in each grade), and lower for grades 7-9. While this is to be expected, it does raise questions about the School's confidence in its ability to expand from 75-86 to 110 students in each of the middle school grades.
5. (Preliminary Financial Forecast) Based on the school's projections, the school should not have cash flow issues, and should be in a reasonably strong financial position. For projections, the WPU is increased 1.5% per year, and enrollment holds constant after the planned expansion in 2016. The School suffers negative net assets for the foreseeable future and this is largely tied to depreciation expense. I asked LPA to respond to the negative net asset position and Brad Taylor with Academica compiled the following, which is helpful in providing a full explanation:

"Early Light's negative asset position has been a product of the past few years of servicing the School's initial 2010 bond. With the bond issuance of \$13,330,000 in December 2010, the school has yet to pay any principal on the bonds. Principal payments will begin July 2015. At the same time, the school has recorded \$868,655 worth of depreciation expense directly related to the building and \$65,119 in amortization expense. While the expense has created a drag on the net asset position, the school has remained strong from a net cash flow from operations and days cash on hand during the period. Unrestricted cash has grown from \$474,733 in the fiscal year 2010 audited financial statements to \$819,797 in the fiscal year 2013 audited financials. This is a positive indicator of the school's strength as it has also serviced approximately \$75,000 annually in the state revolving loan debt. With that debt extinguished (paid in full June 2014), and the balance between depreciation and principal paid beginning to swing in the school's direction, Early Light Academy fully expects for the net asset position to begin improving in the next few years."

6. Debt is forecasted at the following terms: Approximately 5.65% TIC rate, 35 year maturity, with only interest until 7/15/15. The School is not seeking a rating on the bonds. We have been in touch with both the financial advisor and underwriter, and these terms seem reasonable for the current market. ELA is going to sell bonds into the public market and target negotiating a 5-year par call.
7. The projected debt coverage ratio is between 1.21X and 1.34X for the next five years. As long as ELA can meet the large enrollment jump in 2016, coverage should not be a problem given the conservative assumptions of the revenue forecast.
8. (Documentation of School Financial Status) The projected overall debt service burden rate for the school is approximately 24%. We would expect this ratio to fall in the future as the WPU is increased. This level is high but not a big concern. (rating agencies and the market usually like to see a debt service burden ratio of 15% or less for an investment grade transaction)
9. (Bond issue information, 9 (a)) The cash position of the school appears between adequate and strong at approximately 55 days cash on hand. It is worth pointing out that the School's cash position has been improving for the past several years in spite of the decline in net assets into negative territory, as explained in question 5 (see above).
10. There is construction risk, which is a negative factor. The timetable for meeting the deadline to open for the 2015-2016 school year leaves little room for error. The contracting, architecture, and engineering

work are all being done by One West Construction. This fact raises conflict of interest concerns related to Academica West and the process by which the contract was awarded.

11. The budget projections include large enrollment growth from 752 this year to 1030 for the 2015-2016 school year. This represents 37% growth and will be the largest challenge to the future success of the School. The strong waiting list indicates the growth is feasible but will be particularly challenging for the upper grades.
12. The professional costs of this transaction are lower than for other non-rated charter school deals we have seen. Piper Jaffray will receive an underwriter spread of \$14.5 per \$1,000, whereas we have seen most non-rated deals sold with a spread of \$15-\$20.

As long as ELA can maintain its enrollment base, the financial structure appears adequate to service the debt. The three year call feature (or five year) is a wise structuring alternative and provides the School significant flexibility should they qualify for the moral obligation credit enhancement in three years. If you have any questions, I would be happy to answer them.